



Effort to Repeal 3 Percent Withholding Tax on Government Payments Gains Cosponsors

By Clay Flaherty and Jay Heflin
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Bipartisan members of the House Ways and Means Committee joined local government and business groups today to rally support for legislation that would eliminate tax withholding requirements on federal, state and local government contractor payments.

Reps. Kendrick Meek (D-Fla.) and Wally Herger (R-Calif.) spearheaded the event to shore up a final push for legislation, the Withholding Tax Relief Act of 2007 ([H.R. 1023](#)), which would repeal a mandatory 3 percent withholding requirement on all government payments to contracted vendors starting in 2011.

The withholding requirement was originally included in the Tax Increase Prevention and Reconciliation Act, passed during the 109th Congress, to narrow what Meek called the “tax gap” and ferret out non-compliant vendors.

The number of cosponsors is approaching 160, Meek said today. “When I woke up we had something like 154; now I think we’re up to 158 and well on our way to 160,” Meek said. “We have colleagues coming up to us from the left and right, saying, ‘Put me on this bill.’”

In a “Dear Colleague” letter released today by Meek, he claims that the withholding policy unfairly hinders the business efforts of the majority of trustworthy government contractors.

“The 3 percent withholding provision paints all taxpayers that provide goods or services to governments as would-be criminals, which could both drive up the cost of doing business and increase the price of goods and services purchased by governments,” he said.

The assumption behind the provision was that contractors hired by governments don’t always pay their assigned share of taxes. But that assumption is wrong, Meek argued, deeming the 3 percent hold an interest-free loan to the federal government that instead should go to the businesses providing aid to governments.

Herger described its inclusion in the 2005 tax bill as a bit of mystery. The provision, he said, was the product of back-room negotiations between conferees and was not communicated to members when the conference report was presented for final passage. He further posited that conferees must have known the measure was unjust because they postponed its activation to 2011.

“It was interjected in a conference committee in the middle of the night, not to be enacted a few days later but until January 2011,” he said. “All of that kind of shows that even the people doing it realized that this was really some pretty bad stuff.”

Equally questionable, the sponsors argue, is the provision’s cost. The Congressional Budget Office originally scored the measure as raising \$6 billion annually, Meek said, but the lawmaker contended that this forecast is wildly off. The Joint Committee on Taxation puts the revenue raised around \$300 million per year. Impetus for the difference, he argued, was pressure on conferees to add revenue raisers to keep the cost of the 2005 tax bill as low as possible.

“We ended up with this provision that no one saw coming,” he said.

Martin Regalia, vice-president for economic and tax policy and chief economist at the U.S. Chamber of Commerce, said the proposal unfairly harms reputable vendors. “This taxes people who are known to have paid, and essentially make them write the government a loan,” said Regalia. “And that’s bad tax policy.”

In addition to the unfair taxation of small businesses, Meek and Herger expressed concern that the requirement would place undue strain upon local governments – who they claim would have to negotiate new contracts with vendors and pay withholding taxes to the federal government as a result of the provisions.

Sally Heyman, a board member of the National Association of Counties, said, “Without the repeal of [the provision], local governments will have to pay out literally hundreds of millions of dollars.”

The bill has been submitted to the Ways and Means Committee. Both Herger and Meek believe there is enough support to pass it from the committee and further believe that the Senate is interested in moving a similar bill.